

FINANCE COMMITTEE MINUTES
November 12, 2015

The City Council Finance Committee of the City of Norman, Cleveland County, State of Oklahoma, met at 5:00 p.m. in the Municipal Building Study Session Room on the 12th day of November, 2015, and notice and agenda of the meeting were posted in the Municipal Building at 201 West Gray and the Norman Public Library at 225 North Webster 24 hours prior to the beginning of the meeting.

PRESENT: Members Castleberry, Heiple, Lang, and Chair Rosenthal

ABSENT: None

OTHERS PRESENT: Kyle Allison, Council Member
Greg Jungman, Council Member
Lynne Miller, Council Member
Steven Tyler-Holman, Council Member
Anthony Francisco, Finance Director
Suzanne Krohmer, Budget Manager
Clint Mercer, Chief Accountant
Joel Haaser, CPA, Manager, BKD, L.L.C.
Roosmarijn Tarhule-Lips, CPA, CFE, Manager, BKD, LLP
Brenda Hall, City Clerk
Jeff Bryant, City Attorney
Gala Hicks, Human Resources Director
Ken Komiske, Utilities Director
Dr. Aimee Franklin, Director of Programming in Public Administration , OU
Joy Hampton, Norman Transcript

Member Rosenthal called the meeting to order.

Item 1, being

PRESENTATION BY BKD, LLC, ON THE FYE 2015 AUDIT AND COMPREHENSIVE ANNUAL FINANCIAL REPORT

Joel Haaser made the presentation and reviewed the draft of the Comprehensive Annual Financial Report and the Single Audit. He referred to Governmental Accounting Standards Board (GASB 68) and the effect it had on the financial statements. He pointed out that there was significant impact on the City's Statement of Net Position (Balance Sheet) because of the new requirement to book a pro rata share of the State Fire and Police Pension's System Net Liability on the City's financial statements. Mr. Haaser was asked about cost price analysis with Community Development Block Grant Fund and the Disaster Relief Grant (CDBG/DR) list of projects and why City did not bid out projects separately.

Items submitted for the record:

1. Draft copy of the FYE 2015 Comprehensive Annual Financial Report (CAFR), prepared by the Finance Department and audited by BKD, LLC.
2. Draft copy of the Single Audit Report of Federal and State Grant Awards, prepared by the Finance Department and audited by BKD, LLC.

Item 2, being

DISCUSSION AND PRESENTATION BY DR. AIMEE FRANKLIN, DIRECTOR OF PROGRAMMING IN PUBLIC ADMINISTRATION FOR THE UNIVERSITY OF OKLAHOMA, REGARDING ZERO BASE BUDGETING

Zero Base Budget presentation by Dr. Franklin covered the definitions and process of the program. One of the common purposes is to get out of traditional mindset. An element of zero base budgeting is how we can focus on costs and cost containment. The for-profit-experiences focused on geophysical units or decision packages; and also focused on units instead of expenses. The for-profit-drawbacks are: it takes a lot of effort, to re-task; employees who budget; and analyze budget; to prioritize you have to get rid of the Statute of Liberty; lots of gamesmanship involved. If you ask what expenses you would want to cut, the answer is usually political ones.

In government ZBB, the recent uptick in the use of ZBB is due to the 2007-2008 recession. Typical problems with cities ZBB involves how many decision units and how many decision packages are presented. Examples are how we can get the most “bang” for our buck; you have to have a lot of people involved such as executives, managers, mid-level managers, etc. and then it will go to City Manager for approval. A library system decision example was discussed, with seventeen decision packages. ZBB could use 3 decision units per category.

The Mayor said each has base current enhancement. Jungman asked if they have to establish units first. Dr. Franklin said yes, if they are not already established. Mayor asked when you did this in 2003-2004, how many submitted? Francisco said in the citywide process there were approximately 400 decision packages. Castleberry wanted to know how many cost centers were involved. Franklin stated that Zero based budgeting in states and cities may need to have someone else do this process for them. Challenge would be what information will ZBB produce for you.

Governance questions (1) if you change budget systems and review; this needs to be useful; what is the value added to do this. Jungman asked what can be expected return on investment. Dr. Franklin said there are training costs to train people and adaptability of budget system. Jungman asked if we know how much it will cost to implement computer system changes. Francisco said no, he didn't think it would require computer system changes. Staff-time costs will have to be considered. Castleberry said the opportunity costs and assignments of staff is important. Francisco said, as an example, in Fire department it would be fire captains and assistant chiefs working with the budget. Castleberry wanted to know how much time staff currently spends on budget. Francisco said if 40 people are working now, with ZBB it would be 80 – 100 needed.

Castleberry had implementation questions: (1) how comprehensive will ZBB be; and is it like enterprise funds? Dr. Franklin says technology fees could be used to offset cost of ZBB process. Jungman was told it could take up to two weeks to get cost information. Heiple says we are asking police and firemen to do analysis work along with their daily job. Dr. Franklin says you are relying on their expertise and that it takes a lot of buy-in from process owners. Castleberry says this is empowering employees from the bottom up approach. He also wanted to know what savings range could be expected. Dr. Franklin said very little, the 5% to 25% savings mostly comes from innovation as more people become cost aware/cost conscious. It takes a lot of time to see a lot of savings and it depends on flexibility of area.

Miller said we already have some processes and procedures in place. We want good input to see what processes we do already have in place to get that kind of information from people. Francisco said we have an open door policy, fraud line, etc. Mayor said we had Fleet Study and IT Study to restructure and we went to specialists for system changes. Miller says process is scary, and can have unintended consequences. Jungman expects ZBB to have less benefit if we are already doing some of this process. Dr. Franklin says the City does peer studies and compares what Norman pays for services in comparison to similar cities, these peer studies indicate that Norman is "best in class" in most cost studies, and may therefore benefit less from implementing ZBB. Mayor wants to know what problems we are going to solve with ZBB.

Castleberry would like a ZBB poll department by department. We wouldn't need mandate to tell the City Manager and Finance Director how to do their job. We could use the principles of ZBB and have staff figure it out. Look at principles of different departments and justify their cost going forward.

Heiple asked City Attorney if this process is legal for our Charter. Bryant said Manager would still have to create a budget. Council would still have to give direction. Just looking at a different approach. It is not against the Charter.

Castleberry said three years from now we have a negative balance or projected negative balance, that's the problem I'm trying to solve. The problem we are going to solve is the negative problem. Mayor said we have a revenue problem. Castleberry says we don't have a revenue problem. Jungman said it doesn't mean anything for revenues just to go up if expenses are going up faster. Mayor said we have an increased sales tax base due to growth.

Castleberry said take storm water, how do I know we spend efficiently? We need a ground-up cost approach to answer that question. That's what I want is to identify our costs. Miller asked if changing our budget process is going to give us the cost of a well? Mayor said not sure if ZBB would have given that. Jungman says assertion that same level of service for less money. Castleberry said City needs a Budget Analyst. ZBB might tell us proper costing, might cost City more for a service.

Lang said he came from a ZBB organization, but much smaller. For instance, the library example, the ZBB advantages forces them to know what they need. He says that ZBB will identify that we need more in certain areas. At the last Library election, citizens were not 100% sure what they were voting for. ZBB tells you exactly where the money is going. He said ZBB, done intelligently, made him a smarter business person.

Miller asked if, on the Budget System Chart, we use performance budgeting. Hybrid between performance and ZBB. Dr. Franklin says line item and incremental budgeting are being dropped for a more accountant approach. Line is just looking at object of expenditure. Incremental – every line will get a certain increase; strategic planning – policies; management focus – program budgeting. Mayor said we will be doubling employee workload if we do this ZBB. We have increased our programs without increasing staff. She stated that the opportunity cost of putting together decision packets versus working on our commitments.

Castleberry asked about the COMPLAN Study, was it put together by consultants or staff; IT Study, was it done by in-house or consultants? We outsource a lot of this already. Did we calculate return on investment? Francisco said we looked at reduction of fleet and reduction of future maintenance costs, I can't say we looked at overall return on investment.

Castleberry wanted to discuss proper language for Resolution in regards to ZBB. This Resolution is for direction from Council to City Staff. This would not be an Ordinance which would be law. Resolution is to give direction to staff to implement principles of ZBB. He is not concerned with staff time as much as revenues and expenditures have gone up every year and questions level of service. Jungman said cost of business is greater. Castleberry wanted to know how we would have better service. Miller talked about Eastside recycling service. Castleberry said every year we come up with a project and every year unions' pay is increased.

Castleberry said Council should have a budget and when a department goes over, amount needed should be brought before Council to approve appropriation. Mayor said we require City Manager to list \$50,000 thousand dollar changes in appropriations. Heiple asked why shouldn't we move money to an area that needs it, if the City has the money. Francisco said money was taken from Capital Fund balance in that particular incident. Miller said it's about respect and if we're worried about the budget, we just had an audit, and it was a very positive audit. The things that we've been doing have helped our budget. We have cut in some areas. ZBB will take more time and involve a lot of people. Ask staff about learning curve or do we want them to provide better service or work on explaining details to us. Allison said earlier this year he questioned the budget, and he was told it was an attack on staff. Miller said she is talking about the time for staff. Allison said we're looking at long-term how we can re-allocate funds, not looking for a quick fix.

Francisco gave an example of the City using principles of ZBB in the response to the Council's direction to allocate more resources to animal welfare in fiscal year 2015-2016 budget. Lang said we transferred money for the animal shelter versus building more sidewalks. There are different styles of city government. Does ZBB tend to go to a different process or are we doing what other city government bodies similar to us are doing. Dr. Franklin said size of the City, and about how complex is the government style. The Council-City Manager style is the gold standard. You rely on experts and performance data. Mayor said the animal shelter transfer was a policy decision that we wanted to put money there. Policy decisions versus decision packets. ZBB is not going to help us make those decisions.

Castleberry said you asked what principles of ZBB do we want staff's involvement. We want staff and City Manager to know we want to use those principles. Mayor said before we draft Resolution, we need to decide what principles. Miller said she considers this a significant

change. Jungman says he doesn't want to do ZBB because half measures are not going to help here. Castleberry says you are making this way too complicated. Mayor wants to know about savings. Francisco said there's no inherent savings, the savings come in prioritizing services to be reduced or expanded; opinion you should do it citywide.

Hampton asked about impact of regulations to do ZBB. Dr. Franklin said a lot of agencies going to regulate service levels. Castleberry said you have to identify what is necessary and see what is left.

Items submitted for the record:

1. Copy of Zero-Base Budgeting, Modern Experiences and Current Perspectives, from Government Finance Officers Association and the City of Calgary, Alberta, 2011
2. Copy of the article from McKinsey & Company, The Return of Zero-Base Budgeting, August 2015
3. Copy of ZBB is Back by Shane Kavanaugh, ICMA Publications, April 2012
4. Copy of excerpt from Managing Urban America, seventh edition, by Robert E. England, John P. Pelissero, and David R. Morgan

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Item 3, being

SUBMISSION OF THE REVENUE/EXPENDITURE REPORTS FOR OCTOBER 2015

No discussion.

Items submitted for the record:

1. Summary of Major Funds-General; Capital; Westwood; Water; Water Reclamation; Sewer Maintenance; New Development Excise; Sewer Sales Tax; and Sanitation Fund Revenue Sources vs. Budget, Financial Reports for October 2015

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Item 4, being:

SUBMISSION OF THE REPORT ON OPEN POSITIONS

Gala Hicks made the presentation. She said the Communications Office in the Police Department will be advertised tomorrow due to the PSST Committee. Allison asked if we actively recruit at other cities? Hicks said no, we usually don't have to do that with police and fire. Allison verified that we will have the new Plans Examiner on December 7. Hicks said the Pet Adoption Coordinator position is in the works and the Parking Service Officer position is in the background changing stage.

Items submitted for the record:

1. Position Vacancy Report, dated November 4, 2015

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Item 5, being:

MISCELLANEOUS COMMENTS

No discussion.

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The meeting adjourned at 6:45 p.m.

ATTEST:

City Clerk

Mayor